

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ONY-00 /013 W
-----014595 140750Z /12

R 131755Z JAN 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 4372

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 0340

DEPT SEND ONLY TO EUR/WE FOR KEITH SMITH

E.O. 11652: N/A
TAGS: ETRD, PO
SUBJECT: BRIEFING MATERIAL FOR AMBASSADOR BLOOMFIELD

REF: FERRER/SMITH TELECON JAN 11

1. EMBASSY TRANSMITTED IN CLASSIFIED POUCH OF FRIDAY, JAN 13
EXTENSIVE MATERIALS ON ITS ORGANIZATIONAL STRUCTURE AND
OPERATIONS. THIS MATERIAL WAS SENT UNDER REGISTRY NO. 840024.
POUCH SHOULD ARRIVE WASHINGTON ON SUNDAY, JANUARY 15.

2. FOLLOWING ARE TWO ITEMS ON U.S. INVESTMENT IN AND TRADE
WITH PORTUGAL. THEY RESPOND TO ITEMS 2 AND 3 OF SUBSECTION
D UNDER III. SEPTEL PROVIDES UP-DATE ON U.S. COMPANY PROBLEMS.
SUBSEQUENT CABLE WILL TRANSMIT MATERIAL ON THIRD COUNTRY
ASSISTANCE AND PORTUGUESE APPLICATION FOR MEMBERSHIP IN THE
EUROPEAN COMMUNITY.

3. U.S. INVESTMENT IN PORTUGAL:

(A) U.S. INVESTMENT IN PORTUGAL IS CONCENTRATED INTO SEVERAL KEY
SECTORS: PETROLEUM DISTRIBUTION, ELECTRONICS, PHARMACEUTICALS,
OFFICE EQUIPMENT, AUTOMOTIVE, TEXTILES, CORK, WINE AND FOOD
PRODUCTS. A MAJORITY OF THE INVESTMENT IS IN THE GREATER LISBON
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AREA, BUT A SIGNIFICANT AMOUNT FOR CERTAIN SECTORS - EG., TEXTILES -
IS LOCATED IN THE NORTH OF THE COUNTRY. THE TRADITIONAL LARGE MULTI-
NATIONALS - EG., TEXAS INSTRUMENTS, GE, IBM, NCR, XEROX, FORD, GM,
ESSO, MOBIL - ACCOUNT FOR THE LARGEST SHARE OF US INVESTMENT. THE NET
BOOK VALUE OF AMERICAN INVESTMENT IS ESTIMATED TO BE IN THE RANGE
OF \$200-250 MILLION. MOST OF IT ENTERED PORTUGAL PRIOR TO THE
APRIL 1974 REVOLUTION. SINCE THEN, THE UNCERTAIN POLITICAL,

ECONOMIC AND LABOR CLIMATE HAS DISCOURAGED MAJOR NEW INFLOWS. A CONSIDERABLE NUMBER OF AMERICAN FIRMS, FOR EXAMPLE, FACED SERIOUS DISPUTES WITH THEIR LABOR FORCES AND, AS A RESULT, WITH THE GOP. (SEE SEPTEL FOR LATEST STATUS REPORT). IN THE INTEREST OF ATTRACTING NEW INVESTMENT, THE PORTUGUESE GOVERNMENT NOW APPEARS COMMITTED TO A SATISFACTORY RESOLUTION OF THESE OUTSTANDING PROBLEMS, OF WHICH THE MOST IMPORTANT AND SYMBOLIC CASE IS ITT (LISBON 0140).

(B) A GRADUALLY IMPROVING CLIMATE IN 1977 HAS STIMULATED RENEWED, ALBEIT CAUTIOUS, US INVESTOR INTEREST. A RECENTLY REVISED FOREIGN INVESTMENT CODE (77 LISBON 8022) CONSTITUTES A KEY ELEMENT OF THIS IMPROVED CLIMATE. THE CODE PROVIDES CONSIDERABLE INCENTIVES FOR CERTAIN DESIRED INVESTMENTS AND EASES SOMEWHAT THE CONSTRAINTS ON PROFIT AND ROYALTY REMITTANCES. A CONTINUING IMPROVEMENT IN THE INVESTMENT CLIMATE, I.E., ONE THAT GENERATES CONFIDENCE IN PORTUGAL'S ECONOMIC RECOVERY AND ITS COMMITMENT TO A MARKET ECONOMY, SHOULD SPARK A SIGNIFICANT INFLOW OF DIRECT AND INDIRECT INVESTMENTS.

4. U.S. TRADE WITH PORTUGAL:

PORTUGUESE TRADE IS DIRECTED PRIMARILY TOWARD WESTERN EUROPE, AND PARTICULARLY THE EUROPEAN COMMUNITY, WHICH ACCOUNTS FOR ABOUT 50 PERCENT OF ITS TOTAL TRADE. IN RECENT YEARS THE U.S. AND FRANCE HAVE ALTERNATED AS PORTUGAL'S THIRD OR FOURTH MOST IMPORTANT TRADING PARTNER, ACCOUNTING FOR SOME 8 PERCENT OF PORTUGAL'S LIMITED OFFICIAL USE

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TRADE. THE UK AND WEST GERMANY ARE PORTUGAL'S MAJOR TRADING PARTNERS, ACCOUNTING FOR 13 PERCENT AND 12 PERCENT RESPECTIVELY. IN 1977 (JANUARY-SEPTEMBER) THE US SUPPLIED SOME 9.5 PERCENT OF PORTUGUESE IMPORTS AND TOOK ABOUT 7 PERCENT OF ITS EXPORTS (SEE TABLES BELOW). FIGURES FOR PREVIOUS YEARS WERE: (1976) 9.1 PERCENT OF PORTUGUESE IMPORTS AND 6.8 PERCENT OF EXPORTS, AND (1975) 12.4 PERCENT OF PORTUGUESE IMPORTS AND 7.2 OF EXPORTS. OUR EXPORTS TO PORTUGAL CONSIST PRINCIPALLY OF AGRICULTURAL PRODUCTS (CORN, SURGHUM, WHEAT, RAW COTTON, SOYBEANS AND RICE) AND COAL. OUR MAJOR IMPORTS ARE WINES, CORK AND CORK PRODUCTS, TEXTILES, APPAREL, CANNED FISH, PLASTIC MOULDS, TWINE, CANNED TOMATOE PASTE AND SHOES. PORTUGAL'S TRADE BALANCE HAS DETERIORATED SERIOUSLY SINCE THE APRIL 1974 REVOLUTION. FROM 1960 TO 1974, EXPORTS WERE GENERALLY ABOUT 60 PERCENT OF IMPORTS; IN 1977 EXPORTS COVERED ONLY SOME 41 PERCENT OF IMPORTS. THE PORTUGUESE GOVERNMENT HAS IMPOSED A VARIETY OF IMPORT RESTRICTIONS, INCLUDING PRIOR IMPORT DEPOSITS, SURCHARGES AND QUOTAS. IN RESPONSE TO RAPIDLY DEPLETING FOREIGN EXCHANGE RESERVES IN LATE SUMMER 1977, THE GOP

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INITIATED A SLOW-DOWN IN ISSUANCE OF IMPORT LICENSES FOR VIRTUALLY ALL ECONOMIC SECTORS. THESE MEASURES, WHILE NOT DIRECTED AT ANY PARTICULAR CATEGORY OF GOODS OR COUNTRY SOURCE, HAVE TO SOME EXTENT AFFECTED US EXPORTS. NUMEROUS LOCAL COMPANIES HAVE INFORMED THE EMBASSY OF IMPORT LICENSE DIFFICULTIES. WE HAVE CONTACTED THE MINISTRY OF FOREIGN TRADE TO URGE EXPEDITED ISSUANCE OF LICENSES IN SEVERAL CASES -- E.G., FORD, CATERPILLAR, TUPPERWARE.

PORTRUGUESE TRADE WITH US:

1977 (JANUARY-SEPTEMBER)

TOTAL PORTUGUESE IMPORTS: \$3.5 BILLION
FROM US: \$334 MILLION (9.5 PERCENT)

TOTAL PORTUGUESE EXPORTS: \$1.4 BILLION
TO US: \$98 MILLION (7 PERCENT)

1976

TOTAL PORTUGUESE IMPORTS: \$4.3 BILLION
FROM US: 385 MILLION (9.1 PERCENT)

TOTAL PORTUGUESE EXPORTS: \$1.8 BILLION
TO US: \$122 MILLION (6.8 PERCENT)

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1975

TOTAL PORTUGUESE IMPORTS: \$3.9 BILLION

FROM US: \$483 MILLION (12.4 PERCENT)

TOTAL PORTUGUESE EXPORTS: \$1.9 BILLION

TO US: \$139 MILLION (7.2 PERCENT).

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